Montana. State Employee Compensation Committee
Preliminary pay proposal

# PRELIMINARY PAY PROPOSAL
# BY STATE EMPLOYEE COMPENSATION COMMITTEE



## Committee Studies Pay Problems

The 1989 Legislature set up a State Employee Compensation Committee to study state employee pay issues. This was because of the ineffectiveness of the current 13 "step" pay plan and with employee pay levels. The step plan has been frozen all but one year since 1985. What the Committee did was to:

* survey other employers about their benefits & salary levels;
* survey state employees, union representatives, and management to learn about their concerns;
* hire a consulting firm, The Waters Consulting Group, to audit state pay practices;
* hold a public hearing; and
* research alternatives.

What the Committee learned from all this information was good and bad. On the positive side, the state conducts a credible biennial salary survey, has a generally sound job classification system, and has a competitive benefits package that employees like.

The negatives have to do with pay. State salaries are generally below what other employers pay. This is causing a number of severe recruitment and retention problems particularly in technical and professional occupations. State pay practices over the last 10 years have compressed the pay plan and created major salary inequities among employees doing the same work.

In general, the state has no clear pay philosophy and has discontinued using the step system that is in the law. Most state salaries are well below what other employers pay for the same work.

## Pay System Recommended

The Committee is recommending a new pay plan that has two parts: a philosophy and a new structure.

1. Market Philosophy - The Committee unanimously believes that in order to attract and keep competent employees, the state must pay salaries that are similar to what other employers in our area pay their employees who do the same kind of work.

2. Open Range Structure - An "open range" is a range for salaries in each grade that doesn't have steps. It has an entry salary, a midpoint salary and an upper limit. Instead of steps, there is a prescribed formula for how people's salaries get adjusted in the range. The Committee decided that a "step" plan won't work for state government any more. Steps are too rigid. They get frozen when times are hard. They make it hard to put the state on a market philosophy.

## How the Proposed Pay System Works

### How the Market is Determined

Salary and Benefits Survey - To pay state workers about what other employers pay, first we have to find out what other employers pay. So every two years the state does a salary and benefits survey of other employers in our region. We pick those employers who are likely to compete with the state for workers. Depending on the job, employers who are picked for the survey include other Montana public and private employers, and twelve other state governments. The salaries they pay give us an average salary for each of the state's 25 pay grades.

Committee's 5% "lag" policy - The Committee recommends that the state not make its market salary for each grade the same as the average salary other employers pay. Instead, it would be more appropriate for the state to be 5% behind the average (that is, "lag" the market by 5%). What's the reason for this? Two reasons: 1) the survey shows that the state's benefits package is generally better than other employers' benefits; and 2) some of the states in our survey have big city salaries and a lot of employees, which drove up the averages in our survey (Denver, Salt Lake City, Seattle, etc.).

Temporary 10% "lag" policy - Because so many of the state's employees are paid so far below the average market salaries, the Committee recommends phasing in to the market philosophy. To phase in, the 5% "lag" policy described above would start out at 10% "lag" and phase up to 5% in 5 years. This means that the salaries in the Adjusted Market Salary column of the open range are 10% below the average other employers pay their workers.

## How the Open Ranges Work

An Open Range is shown below. It has an Entry Salary for new employees and an Adjusted Market Salary. The Adjusted Market Salary is the average salary that other employers pay but it is "lagged" by 10% (see the Committee's "lag" policy described above).

In theory, a new employee would move in a few years from the Entry Salary to the Adjusted Market Salary, which would be the going rate for state jobs. The Adjusted Market Salary is the midpoint of the total range for each grade. The upper half of the range could be used for certain occupations where a higher salary is needed to recruit anyone. It could also be used in the future to reward outstanding performance or longevity.

In reality, about half of the state's employees are currently being paid around the entry salary. This creates a huge funding problem to get the current employees to the Adjusted Market Salary. The Committee's recommendations for funding this problem are described in a section below.

### OPEN RANGE

| Grade | Entry Salary | Adjusted Market Salary * |
|---|---|---|
| 1 | 8,752 | 10,296 |
| 2 | 9,345 | 11,020 |
| 3 | 9,999 | 11,819 |
| 4 | 10,691 | 12,667 |
| 5 | 11,464 | 13,616 |
| 6 | 12,318 | 14,664 |
| 7 | 13,261 | 15,825 |
| 8 | 14,283 | 17,085 |
| 9 | 15,415 | 18,483 |
| 10 | 16,665 | 20,030 |
| 11 | 18,055 | 21,753 |
| 12 | 19,582 | 23,650 |
| 13 | 21,256 | 25,734 |
| 14 | 23,117 | 28,055 |
| 15 | 25,185 | 30,638 |
| 16 | 27,477 | 33,509 |
| 17 | 30,034 | 36,716 |
| 18 | 32,863 | 40,273 |
| 19 | 36,033 | 44,267 |
| 20 | 39,552 | 48,709 |
| 21 | 43,488 | 53,689 |
| 22 | 47,888 | 59,268 |
| 23 | 52,829 | 65,545 |
| 24 | 58,357 | 72,584 |
| 25 | 64,496 | 80,421 |

* This is the midpoint of the total range for each grade.

## How Raises Are Determined

1. Market Adjustment - Everyone will get at least a market adjustment. Every year, other employers' salaries change. To keep paying about the same as other employers, the state needs to change salaries by this much too.

2. Progression Raise - Employees would progress through the range according to how much their base pay falls short of the adjusted market salary. For each full percent their base salary is below the Adjusted Market Salary the state would add an increase of part of a percent until they are caught up. Initially, most state employee would get this

raise too. This is because most state employees are now being paid closer to entry salaries than to Adjusted Market Salaries (see the In reality section above).

3. Longevity - The longevity reward is essentially the same amount that employees get now. But instead of being based on the difference between steps, it is an added .9% of salary for every 5 years of service.

## Example

This example uses the Committee's funding recommendation described in another section: 4% for the market and .25% for progression.

STEP 1: Figure how far your base salary is below the adjusted market salary for your grade. An employee divides his current salary by the amount in the "Adjusted Market Salary" column for his grade.

$$\frac{\text{Your Base Salary } \$17{,}083}{\text{Adjusted Market Salary } \$20{,}030} = .86\ (86\%)$$

Your base salary is 86% of the Adjusted Market Salary or 14% below the adjusted market salary. (1.00 - .86 = .14)

STEP 2: Calculate your progression raise. An employee gets 1/4 of one percent (.25%) for each full percent his salary is below the Adjusted Market Salary. In this example that's 14 full percents.

14 X .0025 = .035 (3.5%)

STEP 3: Add the progression raise to the market adjustment that everyone gets to find out the total percent raise. Add the 3.25% to the 4% market raise to get the total percentage increase.

| Market | + | Progression | = | Total |
|---|---|---|---|---|
| .04 | + | .035 | = | .075 (7.5%) |

The total is 7.5% increase.

STEP 4: Multiply the base salary times the total percent to find out the actual dollar amount of the raise. In this example, the employee multiplies his base salary times 7.5%.

Example: $17,083 X .075 = $ 1,281
$17,083 + $1,281 = $18,364

This employee's new base salary will be $18,364. In July 1992, he will use this new number to calculate his 1993 increase and divide it by the Adjusted Market Salary from the 1993 pay plan.

STEP 5: Compute any longevity at .9% for each 5 years of service. In this example, assume the employee has 7 years of service.

$18,364 x .009 = $165

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## Committee's Funding Recommendation

The Committee's pay system can be put into place with different levels of funding. The more funding it gets, the faster salaries get to the Adjusted Market Salary. The Committee was split 4 votes to 3 votes on a funding recommendation. The funding recommendation that passed is as follows for each year of the next biennium.

1. 4% Market Adjustment - This is the raise everyone gets to stay current with changes in the market. This recommendation means that the Committee thinks other employers in our region are going to raise the salaries they pay their workers by an average of 4% each of the next two years. This recommendation costs about $44,000,000.

2. 1/4 of 1% Progression Raise - This is the raise that is added on to the market adjustment to bring employees from the entry salary toward the adjusted market salary (or going rate). This costs about $28,000,000. The reason this costs so much is that many of the state's employees are down around the entry salary for their grade right now. This

amount would move all employees up near the adjusted market salary in about 5 years.

3. Basis for Split vote - The Committee was not in agreement about the 4% and the .25% amounts. Together, these cost $72,000,000 over two years. Members who voted against these amounts argued that this amount was not realistic, given the state's hard economic times. They wanted smaller amounts because they felt that would improve the plan's chances for success. There were also statistics presented to the Committee that suggested the market would be more likely to grow 3% than 4% in Montana.

4. What salaries and raises cost - The total budget for state salaries is about $360 million per year. A 1% Market Adjustment in salaries costs about $3.6 million for one year or $7.2 million for the two years of the biennium. A 1% Market Adjustment in the second year of the biennium would cost an additional $3.636 million. This would bring the total new funding required for a 1% raise each year to $10,836,000 for both years of the biennium. As a rough estimate, for every percent you increase the pay plan it will cost about $10.8 million for the biennium. With current employees' salaries where they are, every .1% Progression Raise also costs another $11,000,000.

## Other Committee Recommendations

The Committee endorsed the state's plan to update the state's job classification method to use more specific factors that are weighted with points. They also supported the state's implementation plan, which does not add staff or budget.

The Committee proposed that the Department of Administration study and consider performance-based (merit) pay for possible use in the future.

The Committee recommended that problems related to travel reimbursement also be studied.

## Committee Members

**Chairperson Bob Marks**

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|---|---|
| **Barbara Booher** | **Gerry Devlin** |
| **Vicki Cocchiarella** | **Bob Kelly** |
| **Gene O'Hara** | **John Radick** |
| **Tom Schneider** | **Ralph Anderson** |

## PUBLIC COMMENTS REQUESTED

The Committee wants to hear what people think about the pay system described in this paper.

There are two ways to comment:

1. Public Hearing - Wednesday, October 17, 1990, at 7:00 p.m., in the Old Supreme Court Chambers at the state Capitol in Helena. The purpose is for the Committee to hear comments about its proposal before a final recommendation is made to the governor and the legislature. Comments should address the proposed market-based philosophy, the open range pay structure, and funding provisions.

   General problems and dissatisfaction with the current pay system were heard by the Committee at their February hearing.

2. Written Comments - Written comments are encouraged. Again, comments should be about the market-based philosophy, the open range pay structure and funding a new plan.

   Please send comments by October 12, 1990, to Laurie Ekanger, Administrator, State Personnel Division, Department of Administration, Room 130, Mitchell Building, Helena Montana 59601.